

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

CEA-01 PA-01 PRS-01 /082 W

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R 082118Z DEC 76

FM AMEMBASSY OTTAWA

TO SECSTATE WASHDC 1860

INFO ALL CONGENS IN CANADA

LIMITED OFFICIAL USE OTTAWA 4850

E.O. 11652: N/A

TAGS: EFIN, PGOV, CA

SUBJ: FEDERAL/PROVINCIAL FINANCE MINISTERS' CONFERENCE

REF: (A) OTTAWA 4814; (B) OTTAWA 4833

BEGIN UNCLASSIFIED

1. SUMMARY: TWO-DAY FEDERAL/PROVINCIAL FINANCE MINISTERS' CONFERENCE IN OTTAWA DECEMBER 6-7 ENDED WITHOUT COMPREHENSIVE AGREEMENT ON FUTURE FEDERAL/PROVINCIAL FINANCIAL ARRANGEMENTS, AND OUTSTANDING DIFFERENCES WERE REFERRED TO FIRST MINISTERS' CONFERENCE SCHEDULED FOR DECEMBER 13. CHIEF STUMBLING BLOCK TO AGREEMENT WAS FEDERAL GOVERNMENT REFUSAL ACCEPT PROVINCIAL PROPOSAL TO REPLACE PRESENT INCOME GUARANTEE PROGRAM WITH MORE "TAX POINTS" FOR PROVINCES. SOME KEY FEDERAL PROPOSALS FOR CHANGES IN FINANCING OF SHARED COST PROGRAMS (HOSPITAL INSURANCE, MEDICAL INSURANCE AND POST-SECONDARY EDUCATION) WERE APPARENTLY ACCEPTED BY PROVINCES. END SUMMARY.

2. FEDERAL/PROVINCIAL FINANCE MINISTERS' CONFERENCE IN OTTAWA, DECEMBER 6-7, ENDED WITHOUT COMPREHENSIVE AGREEMENT BETWEEN PROVINCES AND FEDERAL GOVERNMENT, AND MAIN DIFFERENCES WERE REFERRED TO FIRST MINISTERS' LIMITED OFFICIAL USE

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CONFERENCE SCHEDULED TO MEET HERE ON DECEMBER 13.

3. CHIEF UNSOLVED DISAGREEMENT WAS OVER FEDERAL GOVERNMENT DECISION TO END REVENUE GUARANTEE PROGRAM WITH EXPIRY OF FINANCIAL ARRANGEMENTS ACT NEXT MARCH. (FINMIN MACDONALD TOLD PRESS CONFERENCE THIS PROGRAM WOULD COST FEDERAL GOVERNMENT C\$900 MILLION THIS FISCAL YEAR.) DEMISE OF REVENUE GUARANTEE PROGRAM, INTRODUCED IN 1972 TO COMPENSATE PROVINCES FOR LOST REVENUE UNDER NEW TAX LAW REVISIONS, WAS SUBJECT OF JOINT PROVINCIAL COUNTER-PROPOSAL FOR FEDERAL GOVERNMENT TURN OVER TO PROVINCES 4 "TAX POINTS" (I.E., FEDERAL GOVERNMENT WOULD LOWER ITS SHARE OF INCOME TAXES BY 4 PERCENT AND PROVINCES WOULD RAISE THEIR TAXES BY SIMILAR AMOUNT). FINMIN MACDONALD REJECTED COUNTER-PROPOSAL BUT MADE NEW OFFER ON FUTURE FEDERAL TAX CHANGES AFFECTING PROVINCIAL TAX REVENUES.

4. PROVINCIAL FINANCE MINISTERS, WITH ALBERTA'S PROVINCIAL TREASURER MERVIN LEITCH AS SPOKESMAN, HELD NEWS CONFERENCE AFTER MEETING AND REGISTERED "DEEP DISAPPOINTMENT" OVER FEDERAL GOVERNMENT'S REFUSAL ACCEPT JOINT PROVINCIAL COUNTER-PROPOSAL. LEITCH CLAIMED PROVINCIAL COMMON POSITION ON FINANCIAL ARRANGEMENTS WAS HISTORIC EVENT WITH PROVINCES ACCEPTING MUTUAL COMPROMISES.

5. MACDONALD FOLLOWED PROVINCIAL FINANCE MINISTERS WITH PRESS CONFERENCE OF HIS OWN AND STRESSED TRANSITIONAL NATURE OF REVENUE GUARANTEE PROGRAM AND INSISTED THAT PROGRAM WOULD END WITH THIS FISCAL YEAR. MACDONALD DISCOUNTED SIGNIFICANCE OF COMMON POSITION BY PROVINCES AND CLAIMED FEDERAL GOVERNMENT WAS NOT MORALLY BOUND ACCEPT PROVINCIAL POSITION. BEGIN LIMITED OFFICIAL USE

6. COMMENT: ALTHOUGH PROVINCIAL MINISTERS STRESSED DISAGREEMENT WITH FEDERAL GOVERNMENT, THERE WERE APPARENTLY MORE POINTS OF AGREEMENT THAN DIFFERENCES BETWEEN TWO LEVELS OF GOVERNMENTS OVER FINANCIAL LIMITED OFFICIAL USE

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ARRANGEMENTS. PROVINCES AGREED TO MANY OF FEDERAL PROPOSALS AFFECTING ABOUT C\$8 BILLION IN FEDERAL TRANSFERS AND FEDERAL GOVERNMENT AGREED NOT TO CHANGE EQUALIZATION PAYMENTS PROGRAM. PROVINCES WERE UNABLE TO ACCEPT MACDONALD'S DECISION TO DROP PROGRAM INVOLVING ABOUT C\$900 MILLION IN TRANSFER PAYMENTS. WHETHER FIRST MINISTERS WILL BE ABLE OBTAIN ANY ADDITIONAL CONCESSIONS NEXT WEEK IS

DOUBTFUL SINCE FINMIN MACDONALD HAS BEEN ADAMANT ABOUT DROPPING REVENUE GUARANTEE PROGRAM SINCE NEGOTIATIONS BEGAN.

7. PROVINCIAL GOVERNMENTS MAY BE ABLE MAKE SOME POLITICAL POINTS WITH THEIR CONSTITUENCIES ABOUT OTTAWA'S "INSENSITIVITY" TO PROVINCIAL NEEDS. PRESS DEVOTED GREAT DEAL OF ATTENTION TO ATTITUDES AND REMARKS OF NEW QUEBEC CABINET OFFICIALS ATTENDING THEIR FIRST FEDERAL/PROVINCIAL CONFERENCE, AND P.Q. MINISTERS WILLINGNESS TO WORK WITH OTHER PROVINCES IN COMMON FRONT AGAINST FEDERAL GOVERNMENT MAY BE SIGNIFICANT ASPECT OF THIS CONFERENCE.

8. AS EMBASSY POINTED OUT IN REFTEL A, FEDERAL GOVERNMENT HAS UPPER HAND IN FINANCIAL ARRANGEMENTS BETWEEN ITSELF AND PROVINCES SINCE FEDERAL GOVERNMENT CAN MOVE UNILATERALLY IN PASSING NEW FINANCIAL ARRANGEMENTS ACT. AFTER MONTHS OF NEGOTIATIONS, DURING WHICH TIME FEDERAL GOVERNMENT OFFICIALS HAVE STRESSED FLEXIBILITY OF FEDERAL PROPOSALS AND NEED FOR SLOWDOWN IN ESCALATING COSTS OF PROGRAMS, FEDERAL GOVERNMENT CAN NOW INTRODUCE LEGISLATION EVEN IF NO AGREEMENT REACHED AT FIRST MINISTERS' NEXT MEETING.  
ENDERS

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## Message Attributes

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